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PROGRAMME PLANNING AND IMPLEMENTATION

Country and intercountry programmes and projects

FIFTH COUNTRY PROGRAMME FOR ROMANIA

Programme period	Resources programmed	$
1993-1996	Net IPF	2 145 000
	Estimated cost-sharing	2 000 000
	Total	4 145 000

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I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. Following the December 1989 Revolution, Romania firmly engaged in a process to establish and consolidate a multi-party democratic system and to change from a strictly centrally planned economy to a market-oriented one. The transition is taking place in the difficult environment of a world-wide recession. Moreover, for Romania the troubles facing neighbouring countries on its eastern and western borders represent additional hardship as they have a direct and immediate impact on established trade flows. This is notably the case for the embargo on the Serbian Republic.

2. Starting in early 1990, Romania introduced important legislation to create the legal framework for a new society. A new constitution was adopted by popular referendum in December 1991, confirming the choice for a multi-party parliamentary democratic regime. In the economic field, the Government's reform programme has been carried out at a steady pace. In early 1990, central planning was abolished, the number of ministries reduced by half, and the monopolies of foreign trade organizations ended. Two successive steps to liberalize and adjust domestic prices were taken, in November 1990 and April 1991, and were accompanied by substantial devaluations; a third step in price liberalization was taken in July 1991. Distribution of collectivized land was sanctioned and promoted under a land law. As a result, about 80 per cent of the cultivable land has been returned to their former owners. A large number of state-owned enterprises in all sectors were converted to commercial joint stock companies registered under a new commercial law, and 30 per cent of their shares are being distributed to the public. An appropriate legal framework and a favourable environment were established, leading to the emergence of small-scale enterprises; as a result, over 250,000 small enterprises have been registered since January 1990.

3. A liberal foreign investment law has been enacted. A two-tier banking system has also been established, with an independent Central Bank and the former specialized financial intermediaries converted into universal banks; entry of foreign banks has been encouraged. The fiscal system has undergone preliminary reform and value added tax (VAT) will be established in early 1993; the budget's traditional role as a conduit for transfers of profit between enterprises has been eliminated; and a substantial devolution of expenditure authorities to local Government has been enacted. To protect the population against extreme hardships during the transition, an unemployment compensation fund has been established and the existing social insurance system to protect the poor is being strengthened. At the same time, the country is working at healing some of its most publicized social ills, such as the absence of a family planning policy and the situation of its large institutionalized child population.

4. The degradation of the environment resulting from the industrial strategy of the previous regime requires urgent remedial action. Severe hazards to

human health are found, mainly in highly localized industrial areas as a result of the post-World War II industrialization strategy adopted by Romania and which focused on the development of large, energy-intensive metallurgical, chemical and machine-building industries.

5. Limited regard to environmental considerations, combined with inefficient use of energy and other resources, led to severe degradation most felt in fourteen localized environmental hot spots, not unlike those found in other parts of Eastern Europe and also in less obvious but pervasive areas of the country. In two of the more severe priority areas, Baia Mare and Copsa Mica, emissions of lead are of particular concern. About 30 per cent of the length of rivers is polluted. Much of the toxic ground waters are polluted both by industrial waste and by nitrates, mostly from agricultural activities. Natural resources have also been affected and both pollution and poorly planned economic activity have affected the Danube Delta - a large natural biosphere - and the Black Sea.

6. The impact of the economic reform programme, the removal of subsidies, the adjustment of energy and industrial input prices to economic levels, and hard budget constraints on enterprises has had a positive impact on the environment. Industrial production is down and so are the directly related emissions and discharges. Air quality is improving and the pollution of surface and groundwater is decreasing. The Government has been designing a two-stage environmental strategy with the assistance of various donors, including the World Bank. The long-term strategy is to reach sustainable development, i.e., environmentally friendly economic growth. In the short term the Government is engaged in capacity-building in the field of environment through the establishment and strengthening of appropriate institutions and the precise assessment of environmental damage, notably through UNDP cooperation. The Government is also engaged in reducing the most serious health hazards caused by water, air and land industrial pollution. UNDP is expected to play a critical role in the strategy.

7. At the same time, there has been a serious deterioration in economic performance. On the output side, gross domestic product (GDP) fell by over 7 per cent, in 1990, with industrial production falling by about 17 per cent; the falling trend continued in 1991 and 1992 although at a slower pace. The overall contraction of GDP since the Revolution is over 20 per cent. This explains in part why the per capita GDP has been revised downwards by the World Bank to $1,620.5 in 1990 and $1,335.2 in 1991. The hardships generated by this situation are reflected in the comparatively low human development index attributed to the country in the Human Development Report 1992.

B. National development objectives and strategies

8. The overall development objective of the Government is the continuation of the restructuring of the economy leading to a market economy. In the short and medium term, this will require urgent remedial actions to reduce the most serious industrial environment hazards. A strengthening of institutions

dealing with environmental problems at the national and subregional levels is also required. Specific objectives are:

(a) The continued implementation of the efforts to stabilize the economy at the macro level;

(b) The design of monetary and fiscal policies to promote structural transformation and facilitate the efficient allocation of foreign exchange investment and energy resources;

(c) The consolidation of price liberalization and the progressive removal of remaining distortions;

(d) The reduction of the energy intensity of the economy, including various demand management programmes; reduced energy costs per unit of production will enhance international competitiveness both at the national scale and for individual sectors and enterprises;

(e) The continuation of the export development effort to overcome the shortage of foreign exchange and to allow the modernization of largely obsolescent production facilities;

(f) The intensification of privatization efforts, the promotion of competition in all branches of activity, and the stimulation of small-scale private enterprises;

(g) The continued restructuring of the agricultural sector to increase access of individual farmers to inputs, equipment and credit;

(h) The early development of appropriate networks to deliver unemployment benefits as well as other programmes of the social-safety net is of high priority since economic restructuring will entail increases in unemployment.

9. Simultaneously, the Government will pursue:

(a) The reform of the educational system to respond to the needs of a democratic society and a diversified economy focusing on the development of management skills; and

(b) The adoption and implementation of a human-centred family planning policy and restructuring of the health sector placing emphasis on preventive medicine.

10. The actions and policies to support these goals are intricately linked. While the design of the reform and adjustment programmes have therefore to be comprehensive in nature, they also need to be internally consistent, particularly avoiding actions in one area which impede or retard progress in others.

II. EXTERNAL COOPERATION

A. Role of external cooperation

11. Immediately after the December 1989 Revolution, Romania received massive emergency assistance in the form of food, equipment, drugs and personnel from a variety of governments and non-governmental organizations (NGOs), estimated to have reached over $170 million in 1990 and $85 million in 1991. This was complemented by technical cooperation and a critical import loan from the World Bank for $180 million. At the same time, multilateral and bilateral donors were preparing plans to support government reforms over the longer term. In this connection, a structural adjustment loan from the World Bank for $400 million plus $100 million for balance-of-payment support from Japan was approved. Extensive assistance was also initiated for transport infrastructure rehabilitation, energy, private sector development, agriculture, health and family planning. Main sources of assistance are the World Bank, the European Bank for Reconstruction and Development Bank, the European Community, the United States, France, Germany, Japan and the United Kingdom.

B. Aid coordination arrangements

12. The coordination of external assistance has been entrusted to the Romanian Agency for Development in cooperation with the Ministry of Foreign Affairs. The Agency and the Group of 24 are in the process of further developing the mechanism of donor coordination through the organization of regular donor meetings to be complemented by sectoral meetings. UNDP and other United Nations organizations represented in Romania are directly involved in this process.

III. THE COUNTRY PROGRAMME

A. Assessment of ongoing country programme

13. The fourth country programme was initiated and approved in a political, economic and social context completely different from that prevailing after the December 1989 Revolution. It concentrated on the development of advanced technology in the industrial and energy sectors. Most of the projects undertaken under this programme are completed. It is considered that they have helped Romanian industry to keep pace with rapidly evolving technologies during a period of extreme isolation of the country. The projects in this programme have also made available to the market economy the required trained technicians as Romania now tries for integration into the European economy.

B. Proposals for UNDP cooperation

1. Preparatory process

14. Starting in early 1990, the Government and UNDP devised a new strategy to re-orient ongoing UNDP activities to ensure that they were in direct support of the fundamental reform process undertaken by the country. United Nations specialized agency missions, notably from the International Labour Organisation (ILO), the United Nations Industrial Development Organization (UNIDO), the Food and Agriculture Organization of the United Nations (FAO) and United Nations Department of Economic and Social Development (UNDESD) were asked to make specific recommendations for projects and programmes in line with new national policy orientations. Lessons drawn jointly by the Government and UNDP from the fourth cycle and proposals for fifth cycle priorities were presented in information concerning the case of Romania, added to the collective advisory note on the fifth country programme for the Central East European countries in transition.

2. Strategy for UNDP cooperation

15. The fifth country programme is focused on a number of priority aspects of the national reform programme selected because of UNDP's specific advantages of neutrality and flexibility for capacity-building, notably the growing capacity of UNDP to assist the transition in Central, Eastern Europe and in the Commonwealth of Independent States thanks to a coherent strategy and a network of newly established United Nations field offices. The range of operational modalities available from UNDP and the United Nations system will be used to maximize the return on the limited resources available in this cycle, and to open up opportunities for accessing information and expertise available globally to help the country evolve into a market economy and provide social benefits to the population. Human development dimensions of the national programme will be supported by the United Nations Children's Fund (UNICEF) special programmes in favour of institutionalized children and its support to policies concerning the well-being of women and children; by the World Health Organization (WHO) and the World Bank primary health restructuring programmes and by the United Nations Population Fund (UNFPA) in the field of family planning.

3. Proposed UNDP cooperation in selected areas of concentration

16. Three areas of concentration for UNDP support in the fifth cycle are being proposed in keeping with the national development agenda:

(a) Human resources development - focusing on assistance in training technicians in economic management skills;

(b) Privatization - support for the expanding government programme to promote small-scale enterprises and the transition from state-owned enterprises;

(c) Environmental protection and energy conservation - to increase planning and policy-making capacity in this field and initiate remedial actions.

Human resources development

17. Romania has many well-trained technicians but they lack managerial skills. This is considered a serious handicap that might jeopardize the achievement of the transition to a market economy. The proposed strategy is to seek UNDP assistance in achieving the national goal of upgrading management skills by:

(a) Designing and implementing, within the framework of an approved project a long-term programme of retraining existing managers in modern management techniques, thus preparing the enterprises for future privatization and simultaneously creating a new cadre of well-trained managers for the emerging private sector. Sensitization to environmental problems will be an integral part of the retraining programme;

(b) Using the resources of the Management Development Programme (MDP), the Transfer of Knowledge through Expatriate Nationals (TOKTEN) and United Nations International Short-Term Advisory Resources (UNISTAR) to provide tailor-made transfer of management skills to the leaders of selected strategic enterprises.

18. The results of activities in this area will be measured in terms of their actual contribution to increasing the ability of existing enterprises to adapt themselves to the requirements of the market economy and the extent to which they have greater access to market information, new management tools and other requirements. The United Kingdom and the United States Agency for International Development (USAID) are engaged in parallel management training activities. Synergy and cooperation leading to possible cost sharing/co-financing in this sector will be actively sought.

Privatization

19. The programme of privatization is central to the country's transition process. UNDP support will assist the two-pronged national approach to privatization by:

(a) Building the capacity of the National Agency for Privatization to design and implement a short, medium and long-term privatization programme; providing assistance in the elaboration of the complex mechanisms for the transfer of ownership of public enterprises to private owners and stockholders; helping in selecting priority areas for privatization and creating an environment leading to national and foreign investment in enterprises; and

(b) Promoting small-scale enterprises. Inexistent during the previous regime, this sector is considered extremely promising for income-generation and employment-creation in the face of expected massive lay-offs in the

industrial sector and public administration. Support to small-scale enterprises will be provided through a UNDP-funded centre for guiding potential small-scale entrepreneurs and counselling them during the start-up phase of their businesses. Environmentally friendly activities and those with low energy consumption will be systematically encouraged. Public awareness programmes stressing the role and potential of small-scale enterprises are also foreseen.

20. The activities so far undertaken by UNDP in this sector could play a catalytic role for other donors, notably through the provision of technical corporation for creating a funding mechanism for credit to small-scale enterprises. The increase in the number of newly established environmentally friendly small and medium enterprises as well as the reduction of the number of failures in this sector during the fifth cycle will determine the effectiveness of the proposed strategy in this area of concentration. Complementary assistance is being provided by the European Community (EC), the World Bank, USAID and the United Kingdom in support of the Government's privatization programme. The early involvement of UNDP in this key sector and the confidence it has gained with the authorities concerned should facilitate ongoing UNDP efforts to expand its activities through resource mobilization.

Environment protection and energy conservation

21. The environment was severely neglected by the previous regime. The rapid heavy industrialization of several regions of Romania was conceived without consideration to the negative impact on the environment. The proposed strategy to redress this situation would involve UNDP with other donors in assisting the national programme to build capacity for environmental protection. Activities could include:

(a) Strengthening the capacity of the Ministry of Environment to further assess and quantify the extent of the damage to the environment;

(b) Developing a remedial action plan;

(c) Preparing and implementing appropriate legislation for environmental protection in line with international and European Community standards;

(d) Ensuring coordination of donor environment inputs within the regional Danube River Basin and Black Sea projects;

(e) Developing, in cooperation with other donors, appropriate proposals for energy conservation.

22. It is expected that by the end of the fifth cycle, appropriate institutional strengthening and immediate remedial action in the field of environment and energy conservation will have occurred and that significant steps will have been taken towards improving the quality of the environment. Activities in this area will be presented to the Global Environment Facility (GEF), Capacity 21 and other funding sources.

C. Assistance outside main country programme areas

23. A surplus of the trade balance through an increase of exports is essential for the resumption of investment in the industrial sector. A UNDP project is therefore assisting the Government in designing a comprehensive export promotion policy adapted to the new economic environment. This activity is largely financed by a French trust fund.

24. Because of the essentially unpredictable character of the transition process, funding is allocated to an umbrella project to enable a flexible and unbureaucratic response to Government priority requests outside the main country programme focus. These resources could also be used to provide catalytic but limited inputs required to complement other donors large-scale activities.

D. Implementation and management arrangements

25. The programme will make full use of the different modalities made available by UNDP for project implementation. Government execution, strengthened by agency support under TSS-2 will be the preferred arrangement in the preparation of new projects. The large Romanian community abroad will continue to represent an important source of TOKTEN expertise and UNISTAR will be used, especially in the privatization programme. Through an agreement with the United Nations Volunteers (UNV) programme, national UNV specialists contribute to several ongoing projects and their role will be expanded. Whenever possible, technical cooperation among developing countries (TCDC) will be used, particularly in areas such as human resources development and the environment, where needs-oriented programming exercises or seminars may be organized to assemble the experts and centres of excellence of the region, with the aim of facilitating networking and mutual information on the most advanced resources of Central and Eastern Europe.

26. In addition to the normal monitoring of ongoing activities, which will be strengthened and systematized, an annual review of the achievements in the three areas of concentration of the Programme will be undertaken by the Government and UNDP in order to make the necessary adjustments to meet the requirements of the transition process.

Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

	(Thousands of dollars)	
Carry-over from fourth cycle IPF	207 000	
Fifth cycle IPF	3 546 000	
Estimated 1992 expenditure	(1 608 000)	
Subtotal IPF		2 145 000
Government cost-sharing	-	-
Third-party cost-sharing	2 000 000	-
Subtotal cost-sharing		2 000 000
TOTAL		4 145 000

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

Area of concentration	IPF	Cost-sharing	Total	Percentage of total resources
Human resources development focusing on economic management skills	664 000	700 000	1 364 000	33
Support of the expanding Government privatization programme	793 000	800 000	1 593 000	39
Environment protection and energy conservation	367 000	250 000	617 000	14
Activities outside areas of concentration	193 000	250 000	443 000	10
Subtotal	2 017 000	2 000 000	4 017 000	96
Unprogrammed reserve	128 000	-	128 000	4
TOTAL	2 145 000	2 000 000	4 145 000	100

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III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES

		$
A.	UNDP-administered funds	-
B.	Other United Nations resources	
	JCGP participating agencies	
	UNFPA	900 000
	UNICEF	4 200 000
	Global Environment Facility	1 200 000
	Subtotal	6 300 000
C.	Other non-United Nations resources	3 400 000
	Total	9 700 000

Annex II

PROGRAMME MATRIX

Area of focus

Areas of concentration	Poverty eradication and grass-roots participation	Environment and natural resources management	Management development	TCDC	Transfer and adaptation of technology	WID
Human resources development		*	*	*		*
Privatization	*		*		*	*
Environmental protection and energy conservation		*	*			*